



Director of
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Top Secret**EL SALVADOR:****Talks With Guerrillas**

President Duarte and the insurgents appear interested in further talks, but neither side is likely to offer major concessions in hopes of reaching settlement soon. [REDACTED]

The meeting on Monday at La Palma was highlighted by an agreement to form a commission of four representatives from each side with a Catholic bishop as moderator. A second meeting is scheduled for late next month. [REDACTED]

Along with political spokesmen Ruben Zamora and Guillermo Ungo, four guerrilla commanders attended the initial meeting, representing two of the five Marxist factions. Preeminent insurgent leader Joaquin Villalobos announced at the last minute that he could not attend because of transportation problems. [REDACTED]

Comment: Both sides presumably reiterated longstanding conditions for formal dialogue in the four hours of private discussion. While both Duarte and the rebels clearly sought propaganda benefits, they appeared genuinely interested in creating a favorable climate for future talks and held their rhetoric and recriminations to a minimum. They also warned the public, however, not to expect a breakthrough soon that would end the conflict. [REDACTED]

Indeed, neither side is likely to offer a serious compromise soon. Duarte repeatedly has rejected the guerrillas' demands for power sharing. He cannot appear so conciliatory as to risk his newfound credibility with the armed forces and the conservative opposition. The insurgents are unlikely suddenly to embrace a governing process that they have been fighting to replace for five years. [REDACTED]

The highest ranking guerrilla at the meeting, Ferman Cienfuegos, belongs to a faction that has been reduced in size and military strength. His views may not reflect those of Villalobos and other insurgent leaders. It is unlikely that either side will stop military activities before the next discussions. [REDACTED]

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USSR-CHINA:**Fifth Round of Talks**

The long-scheduled fifth round of Sino-Soviet talks that opens in Beijing tomorrow will give the two sides a chance to repair some of the damage caused in May by the Soviet postponement of First Deputy Premier Arkhipov's visit. [redacted]

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Moscow has taken several steps to help create a favorable atmosphere for the talks between Deputy Foreign Ministers Ilichev and Qian. For example, Soviet commentary on the meetings at the UN last month between Foreign Ministers Gromyko and Wu suggested that the sessions had been less contentious than Gromyko's previous sessions this year with the Chinese. [redacted]

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Soviet media have toned down the criticism of Chinese policies that followed President Reagan's visit to China and the intensification of Sino-Vietnamese border clashes last spring. Moscow's handling of the 35th anniversary of the Chinese Communist state was warmer than last year's observance, and Gromyko made only a restrained reference to China in his speech at the General Assembly. [redacted]

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[redacted] the two sides are close to agreement on a new date for Arkhipov's visit to Beijing. Officials on both sides say the trip will take place this year. [redacted]

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Comment: The new talks will demonstrate Moscow's response to recent Chinese efforts to revive momentum in the dialogue. Ilichev could end Moscow's stalling on the Arkhipov visit by proposing a new date. [redacted]

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Both sides probably want to restore at least the appearance of movement in the dialogue. Nonetheless, they are unlikely to make any progress on the fundamental security issues—Moscow's military buildup on the border, intervention in Afghanistan, and support for Vietnam—that have held back improvement in relations. [redacted]

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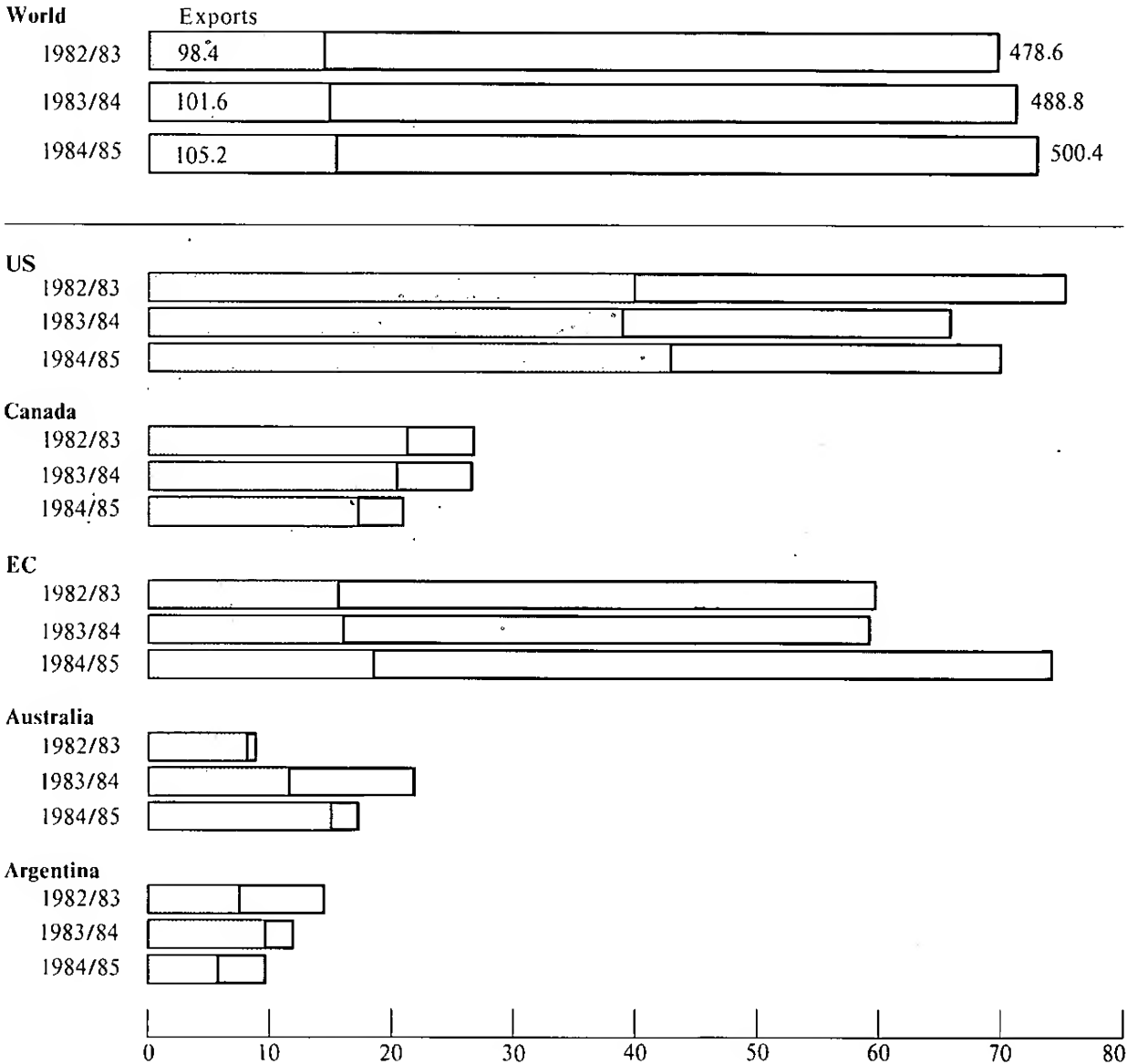
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Global Wheat Production and Trade for Major Exporters

Million metric tons



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INTERNATIONAL: Record Wheat Production

Global wheat production and exports this year are likely to reach record highs, despite poor crops in several exporting nations.

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World wheat production is likely to reach one-half billion metric tons for the current market year—1 July 1984 to 30 June 1985—according to estimates by the US Department of Agriculture. Wheat exports are likely to be 105 million metric tons, also a new high.

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Record breaking wheat crops are expected for China, India, and the EC, with crops of 84 million, 45 million, and 74 million metric tons, respectively. The US is expected to have a bumper wheat crop.

Comment: Wheat crops in other countries have not fared as well. Bad weather in Canada, Argentina, and Australia has dropped production by 20 percent from last year. As a result, wheat exports by Canada and Argentina will be substantially lower. Australia can use record carryover stocks to increase exports by almost 30 percent.

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With two of the big four export competitors suffering declines, US wheat exports—estimated at 43 million metric tons—are likely to reach their highest level in three years.

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JORDAN: Presence of Islamic Jihad

US Embassy contacts in Amman report that the Islamic Jihad organization has established itself in Jordan, possibly under the guise of the Muslim Brotherhood. Embassy officials say the Islamic Jihad name is associated with two separate groups in Jordan. One group is identified with the Shia Islamic Jihad in Lebanon. The second is a Sunni fundamentalist organization believed to be more radical than the Islamic Liberation Party, which advocates overthrowing the monarchy. [redacted]

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Comment: Jordanian security and intelligence organizations closely monitor fundamentalist activity but have not been concerned about its growth during the last few years. The violent nature of both Jihad groups will galvanize Jordanian security, however, and the government is likely to arrest Jihad members, as it has members of the Liberation Party for inciting action against the regime. The Muslim Brotherhood is unlikely to provide cover for Islamic Jihad activities. It has good relations with the government and would risk losing its legal status in the country. [redacted]

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NICARAGUA: Election Outlook

Socialist International President Brandt's reluctance to raise publicly his disappointment over Nicaragua's election during his visit to Managua has given the Sandinistas confidence that they can largely escape condemnation of their election plans. According to the US Embassy, Brandt emphasized the need to tolerate conflicting political views but did not blame the Sandinistas for their failure to secure the participation of the opposition coalition in the election. Although Brandt limited his public support for the government, he declared the election an "important step" for Nicaragua's future. [redacted]

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Comment: The Sandinistas successfully gambled that they would not be held publicly accountable by the Socialist International for the failure of talks with the opposition. The regime realizes the election will not gain the legitimacy it hoped for, but it is willing to settle for control over the process and minimal recognition of democratic progress. [redacted]

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Alfonso Barrantes

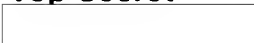


Alan Garcia



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PERU: Election Slates Set

The failure of two major center-right parties to achieve an electoral alliance improves prospects for the two leftist opposition candidates in the presidential election next April. Efforts to reconstruct the coalition that brought President Belaunde to power four years ago foundered, because both sides insisted that their respective standard bearers head the ticket. According to the US Embassy, the major beneficiaries of the center's inability to unite are current center-leftist presidential front-runner Alan Garcia of the American Popular Revolutionary Alliance Party and Alfonso Barrantes of the Marxist-dominated United Left coalition. [REDACTED]

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Comment: The failure of the center-right to unite probably ensures that Belaunde's successor will be a leftist. Early polls indicate that Garcia has a wide lead, but he is untested in a national election and must overcome residual distrust of his party. Barrantes's leftist coalition probably has improved its position by selecting a nondoctrinaire slate designed to attract youth and independent voters. [REDACTED]

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BOLIVIA: Political Developments

President Siles has temporarily mollified the military by shifting unpopular Army Commander Sejas to a largely ceremonial post. Other political problems remain, however. Two important economic ministries are unfilled following the departure from the cabinet—at Communist Party insistence—of the Christian Democrats. Labor protests against austerity measures are growing more violent, and the private sector is increasing its criticism of Siles. [REDACTED]

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Comment: Despite the removal of Sejas, coup plotting probably will resume as the economy continues to decline and labor becomes more strident. Siles's retention of two Communist ministers in his cabinet suggests he will have difficulty forming a tough economic program, and his yielding to Communist pressure on the economic cabinet positions has narrowed his political base. [REDACTED]

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EC-US: Examining US Export Controls

The agreement of EC industry ministers yesterday to complete an inventory of US controls on high-technology exports reflects widespread concern in Western Europe that the controls adversely affect EC industries. According to press reports, the list will take about six weeks to complete and will be used by the EC Ten to counter future US efforts to strengthen export controls. At the meeting, EC Industry Commissioner Davignon criticized current and proposed US restrictions on high-technology sales. He claims that such controls give US firms a competitive edge in overseas sales, although they are justified officially on security grounds.

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Comment: The Commission's involvement in the study affirms that EC members view US efforts to control high technology as partially motivated by commercial concerns.

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BELGIUM-LIBYA: Proposed Nuclear Cooperation

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The Belgian Cabinet on 26 October will again consider the proposed nuclear cooperation agreement with Libya.

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Economics Minister Eyskens told the US Embassy that he will oppose the agreement, despite criticism in the media that Belgium is sacrificing vital economic interests to US concerns. He is urging the US and allied governments to reiterate to Prime Minister Martens and Foreign Minister Tindemans their opposition to the sale before the meeting.

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Comment: Eyskens probably is taking a hard line in hope of regaining US favor after he recently pushed through the sale of Belgian machine tools to the USSR. In exchange for stopping the agreement, Brussels probably would at least require renewed assurances from other West European suppliers that they will not supply nuclear equipment and services to Libya. Most Belgian Cabinet members almost certainly are tempted by the lucrative project, which is tied to a broader economic agreement with Libya. They probably are still convinced that Belgium can guarantee responsible monitoring of Libyan activities.

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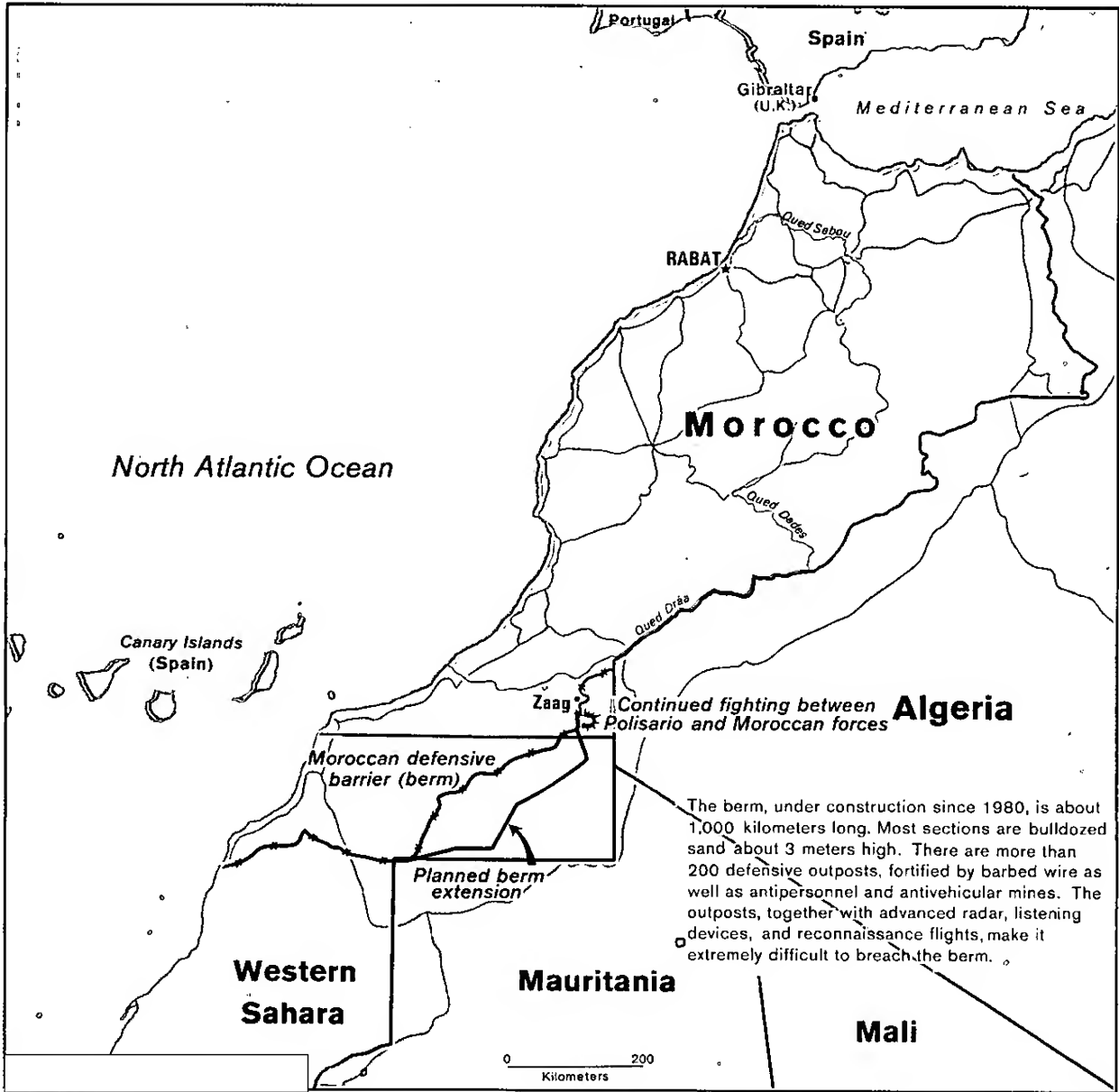
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MOROCCO-WESTERN SAHARA: Battle Continues

Major fighting that erupted on Saturday is continuing between Moroccan and Polisario forces near Zaag in southern Morocco.

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Polisario fighters have been unable to breach Morocco's defensive berm but, nevertheless, may sustain the attack for at least a few more days.

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Comment: This is the heaviest fighting since the summer of 1983, and Morocco appears to have suffered more than 100 killed and wounded so far. The Polisario assault almost certainly is designed to remind Rabat, the OAU, and potential Polisario patrons that the guerrillas are still a viable force. The Polisario guerrillas will not achieve their aim of preventing further extension of the berm, although new work may be postponed at least to December. The assault will cost the already depleted guerrilla forces serious losses of personnel and equipment.

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SOUTH AFRICA-LESOTHO: Peace Prizes

The naming yesterday of South African black cleric and apartheid critic Desmond Tutu as a Nobel Peace Prize winner will embarrass Pretoria. Tutu won the prize for his nonviolent efforts to secure racial reforms. In addition, Lesotho Prime Minister Jonathan recently was selected by the Diplomatic Academy for Peace to receive the Dag Hammarskjold Award for Peace. The Brussels-based Academy applauded Jonathan for his political support of South African blacks who oppose apartheid and for his assistance to South African refugees in Lesotho.

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Comment: Jonathan's award comes at a time when South Africa and Lesotho are moving toward a rapprochement following 18 months of severely strained relations over security issues and over the opening of Soviet, Chinese, and North Korean Embassies in the Lesotho capital of Maseru.

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INTERNATIONAL: Conflict Over Textile Exports

Representatives of developing countries at the session of the GATT Textiles Committee today probably will use the review of the Multifiber Arrangement to resume attacks on the US interpretation of the arrangement and on US investigations of subsidized textile imports. Last month the US alone blocked a resolution by developing and industrialized countries calling on it to withdraw or delay changes in rules of origin for clothing imports. Textile exporting nations have also tried to influence US policy through normal bilateral channels.

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In Brief

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Middle East

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[redacted] .. US
Embassy in Rabat says senior official—not King Hassan—may visit Moscow soon. [redacted]

- **Syrians** believe **Soviets** will express concern to President Assad, now in Moscow, about effects on internal stability of allowing his brother Rif'at to return ... [redacted]

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- **Israeli** extremists planning major demonstration tomorrow in West Bank city of Hebron ... in support of defendants in trial of Jewish terrorist underground ... likely to provoke violence by Arab residents. [redacted]

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- Election of Husayn Husayni yesterday as Speaker of **Lebanese** Parliament—required to be a Shia—the result of **Syrian** arm-twisting ... gives Damascus leverage with fundamentalist Shias ... serves as warning to Husayni rival Nabih Barri to be more responsive to Syria. [redacted]

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- Senior **Pakistani** defense official in **Beijing** for consultations ... possible reaction to **Soviet** pressures, including potential threat to Karakoram highway from **Afghanistan** ... **Indian** intentions also likely subject. [redacted]

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- Chief Minister of **India's** Tamil Nadu state suffered stroke over the weekend ... incapacitation of key ally of Prime Minister Gandhi in south may complicate her election strategy. [redacted]

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USSR

- New **Soviet** commanders for Kiev and Central Asian Military Districts appointed ... seven out of 16 military district commanders replaced since January ... many senior commanders being replaced by younger general officers. [redacted]

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Americas

— **Nicaragua's** pardon of priest accused of counterrevolutionary activity is effort to improve church-state relations before elections . . . Sandinistas deny priest's innocence, call move humanitarian . . . other issues, including priests in government, will keep relations strained. [redacted]

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-- Decision to lift freeze on **UK** assets underscores **Argentina's** interest in renewing Falklands negotiations . . . also intended to put London on defensive and win support for pending UN resolution . . . Prime Minister Thatcher may reduce Falklands exclusion zone in response. [redacted]

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Eastern Europe

— **USSR** reportedly offered **Yugoslavs** export version of MIG-29 fighter at bargain price of \$6 million . . . may complicate imminent decision on Western engine for Yugoslav-produced fighter . . . Yugoslav Air Force wanted new fighters to end reliance on Soviet MIGs. [redacted]

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East Asia

— **North Korean** acceptance yesterday of economic discussions with **South Korea** makes first reference since 1980 to South's title, "Republic of Korea" . . . agenda not set for vice ministerial talks on 15 November . . . leisurely pace parallels unsuccessful dialogue in 1980. [redacted]

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— **Taiwan** to build fourth nuclear power plant . . . likely to buy most major equipment from **US** firms . . . imported equipment could cost more than \$1 billion. [redacted]

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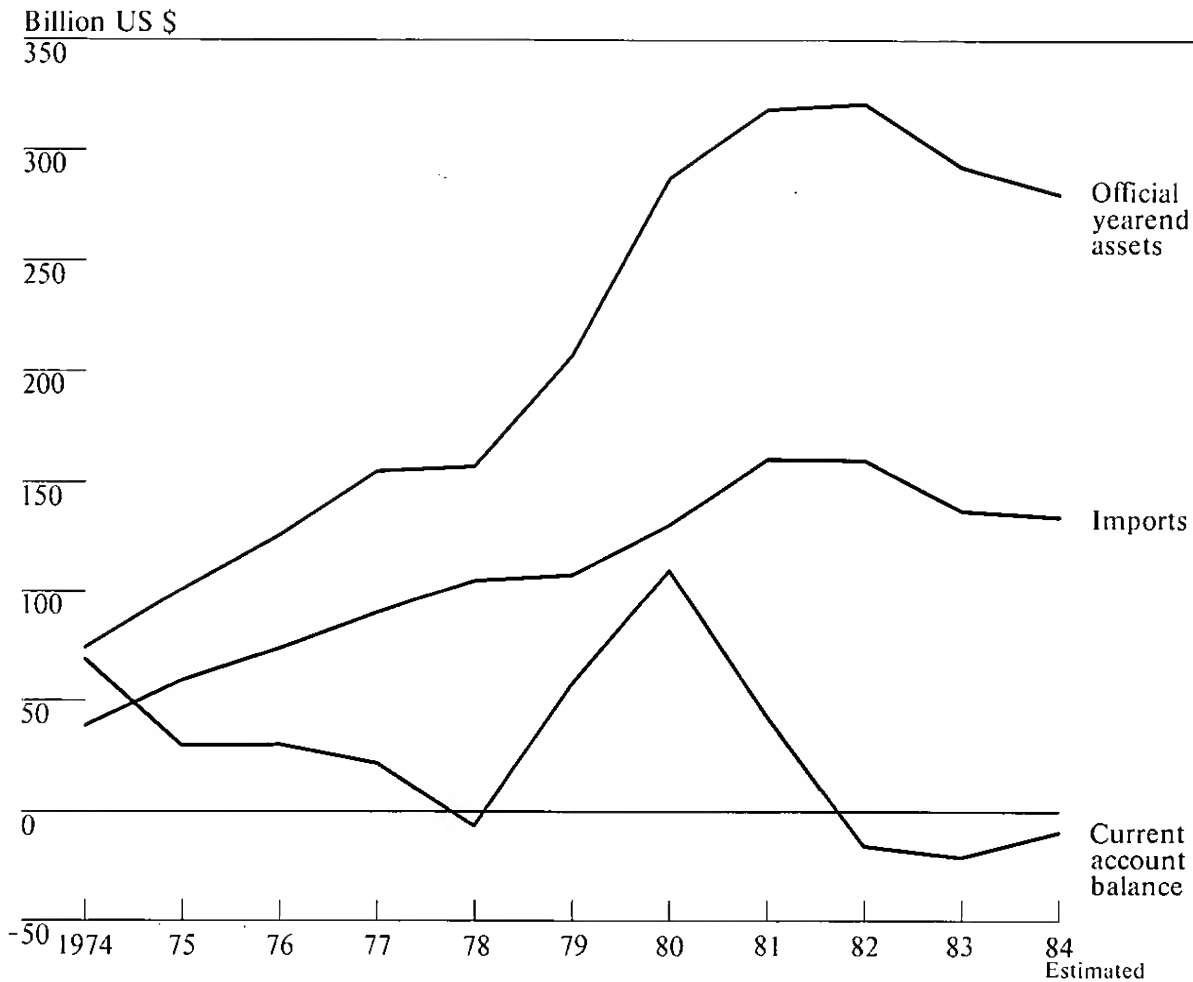
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OPEC: Financial Statistics, 1974-84



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Special Analysis

OPEC:**Effects of Reduced Oil Income**

The weak oil market has lowered the oil revenues of the OPEC member states from a peak of \$275 billion in 1980 to \$154 billion in 1983. As a result, the OPEC countries ran a current account deficit of \$22 billion last year. They reduced foreign assets by \$28 billion, cut imports by 14 percent, borrowed \$3.5 billion, and reduced foreign aid outlays by \$5 billion. The current account deficit is expected to be \$11 billion this year. The cartel's financial reverses are beginning to affect its cohesion, Third World debt, and domestic political tensions. These developments may increase opportunities for Soviet influence.

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The longer the weak oil market persists, the greater the temptation for hardpressed members to break ranks with the cartel. Most industry forecasters expect little growth in oil demand next year, and OPEC may find itself with even greater marketing problems next spring, when seasonal oil use declines.

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Challenges

Nigeria, Venezuela, and Ecuador overextended themselves when oil prices were increasing rapidly and were unable to absorb the loss in oil revenues and keep up their debt repayments. Official creditors are reluctant to reorganize Nigeria's estimated \$8-10 billion in overdue debts as long as there is no IMF-supported program. Venezuela, however, has reached a preliminary debt restructuring agreement with bankers, and Quito is negotiating a new IMF standby program, and a debt refinancing package with banks.

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Algeria and Indonesia have been able to meet their obligations. A continued weak oil market or rise in interest rates, however, could erode their creditworthiness.

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Austerity measures in the debtor countries have reduced living standards, thus creating dissatisfaction with government economic policies. The Governments of Ecuador and Venezuela face potential opposition from labor and leftist groups. The failure of the Nigerian Government to revive the economy is further straining relations within the armed forces.

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Leaders in the Persian Gulf area are facing the simultaneous challenges of the economic downturn, external security threats, and the spread of Islamic fundamentalism. Saudi Arabia's King Fahd is being criticized for his extravagant lifestyle in the face of domestic recession. In Iran and Iraq, consumer shortages caused by heavy war expenses and by lower oil revenues make it more difficult to maintain popular support for the war.

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Adjustments have been less severe for those OPEC members with substantial foreign assets and smaller import requirements. Nonetheless, economic constraints have had a severe effect in finance, real estate, and construction in Saudi Arabia, Kuwait, and the United Arab Emirates and have disgruntled businessmen and members of the ruling families. [REDACTED]

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New Foreign Contacts

Major recipients of aid from OPEC nations are looking for new donors to make up for cutbacks by OPEC. In the process, they are willing to strain relations with the Persian Gulf states that had previously provided aid. Syria is likely to make more gestures toward Iran in an attempt to obtain financial help needed to replace the \$1 billion in aid lost from Saudi Arabia and Kuwait last year. Jordan, Pakistan, and Sudan could put increased pressure on the US for additional assistance. [REDACTED]

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Reduced aid for nations in already precarious economic positions could have serious effects on stability. It could also encourage bolder efforts by hostile neighbors—especially by Libya against Sudan. [REDACTED]

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OPEC's dwindling share of the oil market and the continued pressure on prices in 1983 led the cartel to seek cooperation with a number of other producers, including the first formal contact with the USSR. This improves Moscow's standing with OPEC members and provides a forum for continuing Soviet efforts to improve relations with the conservative Middle East producers. [REDACTED]

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Moscow thus far has been unable to use its oil supply relationship to increase its influence. The new connection with OPEC, however, helps to underpin the existing bilateral relations the USSR has with most members. [REDACTED]

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Outlook

OPEC's financial position is not likely to improve soon. An estimated current account deficit of \$11 billion in 1984 will be financed mainly by drawing down foreign assets. Moreover, if oil prices decline next spring, new financial problems could develop for major OPEC debtors as well as for non-OPEC oil producers such as Mexico and Egypt. [REDACTED]

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As long as the market remains weak, OPEC members will continue to seek contacts with other producers to gain support for their pricing structure. Moscow cannot substantially increase its oil production and exports, but it may portray this lack as a gesture of cooperation with the cartel. This could gain favor with individual members. [REDACTED]

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Countries of Sub-Saharan Africa Most Affected by Drought



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Special Analysis

AFRICA:

Food Outlook Worsens

Some 25 sub-Saharan countries are now seriously affected by what is emerging as the worst drought of this century. Hunger is spreading as governments and relief agencies are struggling with mounting difficulties in obtaining and distributing food. The crisis is a major setback in an impoverished region that is becoming increasingly dependent on imported food.

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Requests for aid probably will increase over the next several months, because harvests throughout the area will be far below normal at least through mid-1985. In many places farmers have eaten their seed supplies, and crops will not be planted there even when the rains return. Although Western assistance to sub-Saharan Africa will increase this year, further allocations of food will be necessary.

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Logistic problems aggravate the situation. Clogged ports, shortages of transport equipment and fuel, poor roads, and occasional misappropriation of food shipments often prevent supplies from reaching people in need.

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While tons of grain remain on the docks at Aseb, Ethiopia, because of lack of transportation, hundreds of thousands face starvation in neighboring provinces. In Tanzania, grain provided by the US has appeared on the open market at high prices, while starvation is reported in many villages.

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Refugees also are a complicating factor. Thousands in Chad continue to flee from the countryside to overcrowded encampments outside cities that have little food. Impoverished refugees from Mozambique are congregating in eastern Zimbabwe, where food deliveries are sporadic.

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Many poorer countries, short of hard currency, are wholly dependent on concessional aid. Others are exceeding their import limits in favor of food purchases or are using scarce foreign exchange for food rather than for the capital goods needed to stimulate economic growth. Donors may soon be asked to provide trucks as well as food.

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Although the drought has intensified the famine, Africa's food problems are chronic. In those black African countries most affected by drought, per capita grain production has been declining steadily since 1970.

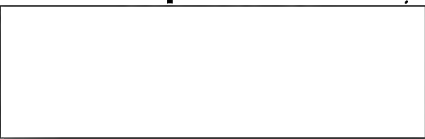
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According to World Bank estimates, even with normal rainfall these countries will produce only the same amount of grain per person in 1988 as they are producing this year.

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